



# WEEKLY ECONOMIC DIGEST



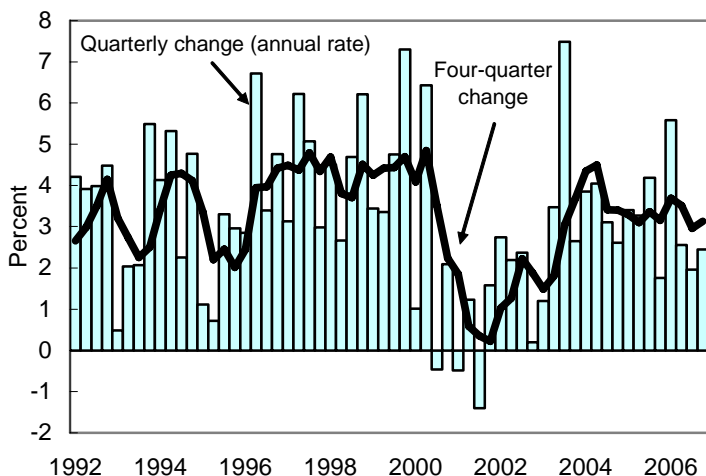
JOINT ECONOMIC COMMITTEE

SENATOR CHARLES E. SCHUMER (D-NY) — CHAIRMAN

March 30, 2007

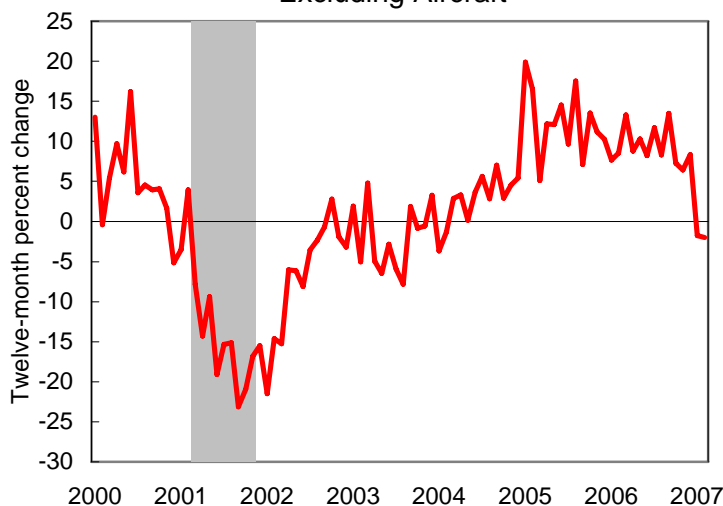
## Economy Continues to Show Signs of Slowing

Growth of Real Gross Domestic Product



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

New Orders of Nondefense Capital Goods, Excluding Aircraft



Source: Census Bureau, U.S. Department of Commerce.

Note: The gray area indicates a period of recession as defined by the National Bureau of Economic Research.

- **Revised fourth-quarter data still show sub-par economic growth.** Real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 2.5 percent in the fourth quarter, according to the latest revision by the Department of Commerce (see top chart). GDP grew 3.1 percent over the course of 2006, reflecting an unusually strong first quarter followed by three quarters of growth below the pace generally regarded to be sustainable over the long run. Economic forecasters believe that the economy has slowed further in the first quarter of this year.
- **Profits grew strongly in 2006 despite a fourth-quarter decline.** Corporate profits from current production declined at a 1.1 percent annual rate in the fourth quarter. However, that decline did little to offset unusually strong growth earlier in the year. Profits advanced by 21.4 percent in 2006, the largest increase since 1983.
- **Capital goods orders were disappointing again in February.** New orders for nondefense capital goods excluding aircraft (a leading indicator of business investment) fell by 1.2 percent last month, following a 7.4 percent drop in January. Orders are 2.0 percent below their level a year ago (see bottom chart). Shipments of nondefense capital goods have dropped at an average annual rate of 12.7 percent in the first two months of the year, following a 4.0 percent drop in the fourth quarter.
- **Growth of disposable personal income and consumer spending cooled in February.** Real (inflation-adjusted) disposable personal income grew by 0.1 percent last month following a 0.6 percent surge in January that reflected unusually large income flows from bonuses and stock options. Real personal consumption spending grew by 0.2 percent in February, following a 0.3 percent rise a month earlier. Personal outlays continued to exceed income last month, and the saving rate remained at -1.2 percent.

The Economy at a Glance	Feb	Jan	Dec	Nov	2006 Qtr 4	2006 Qtr 3	2006 Qtr 2	2006 Qtr 1	2006	2005
<b>Economic Activity</b>										
Real GDP (% growth)	—	—	—	—	2.5	2.0	2.6	5.6	3.3	3.2
Industrial Production (% growth)	12.7	-3.5	10.0	-4.7	-1.2	4.0	6.5	5.0	3.9	3.2
Capacity Utilization (level, %)	82.0	81.4	81.7	81.3	81.6	82.3	82.0	81.2	81.8	80.2
Civilian Unemployment Rate (level, %)*	4.5	4.6	4.5	4.5	4.5	4.7	4.7	4.7	4.6	5.1
Housing Starts (thousands)	1525	1399	1633	1565	1559	1714	1873	2123	1817	2073
Real Disposable Personal Income (% growth)	1.7	7.1	1.8	3.1	5.3	3.2	-1.5	4.6	2.6	1.2
Retail Sales (% growth)	0.8	-0.1	14.4	4.2	0.9	3.6	2.6	13.4	6.2	6.6
Personal Saving Rate (level, %)	-1.2	-1.2	-1.4	-1.2	-1.2	-1.4	-1.4	-0.3	-1.1	-0.4
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, all items (% growth)	4.9	2.4	4.9	0	-2.1	3.1	5.0	1.9	3.2	3.4
Core CPI-U Inflation (% growth)	2.4	3.7	1.2	1.2	1.9	3.0	3.3	2.4	2.5	2.2
Compensation per hour (% growth)	—	—	—	—	3.2	4.1	3.6	2.4	3.1	3.3
Output per hour (% growth)	—	—	—	—	1.6	-0.5	1.2	3.5	1.6	2.1
<b>Financial Markets</b>										
T-bill Rate, 3-month (level, %)	5.03	4.98	4.85	4.94	4.90	4.91	4.70	4.39	4.73	3.15
T-note Rate, 10-years (level, %)	4.72	4.76	4.56	4.60	4.63	4.90	5.07	4.57	4.80	4.29
Federal Funds Rate (level, %)	5.26	5.25	5.24	5.25	5.25	5.25	4.91	4.46	4.97	3.22
Dow Jones Industrial Avg (index level)	12631	12513	12378	12185	12175	11274	11189	10996	11409	10548

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

\*Subject to revision over the next week.

### Upcoming Economic Releases:

- **Full Report on Manufacturers' Shipments, Inventories and Orders: February 2007** [Release: Wednesday, April 4]
- **The Employment Situation: March 2007** [Release: Friday, April 6]
- **Monthly Wholesale Trade, Sales and Inventories: February 2007** [Release: Friday, April 6]
- **Consumer Credit: February 2007** [Release: Friday, April 6]